

H

HOUSING FACTS

February 2002, Volume 7, Number 2

Canada Mortgage and Housing Corporation

Annual rate of starts climbs to 205,100 units in January

In January, the seasonally adjusted annual rate (SAAR) of housing starts in Canada reached 205,100 units*, in comparison with the revised level of 174,100 units recorded in December, for an increase of 17.8 per cent.

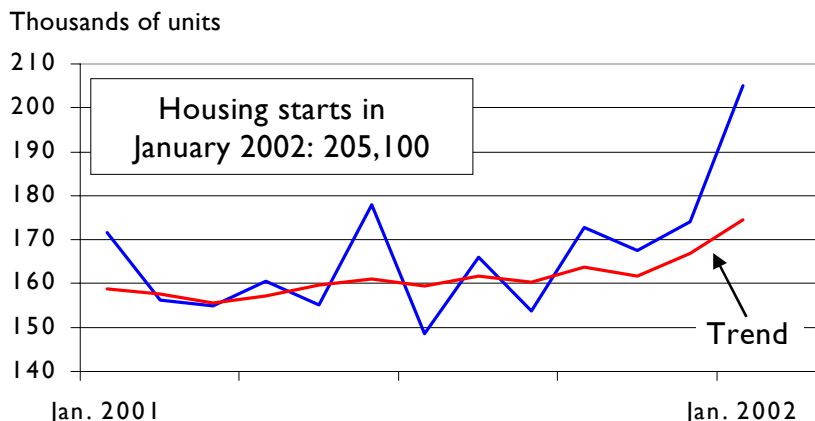
In urban areas, the annual rate of single starts rose by 4.2 per cent to 89,300 units, while the multiple starts rate jumped up by 40.3 per cent to 95,800 units. Estimated rural starts slipped 0.5 per cent to a seasonally

adjusted annual rate of 20,000 units.

The annual rate of housing starts in January was the highest level since May 1990 due in part to unusually mild weather in central Canada. Demand for housing remains strong given the low mortgage rates and the building industry's response to tight resale and rental markets in many metropolitan areas.

Please see **Housing starts** on page 2...

Housing Starts in Canada
All Areas, *SAAR



Source: CMHC Housing Facts
*Seasonally adjusted annual rates

In this Issue:

Looking back on 2001: housing starts robust despite economic slowdown ----- 2

Mortgage rates will remain low this year but rise next year ----- 3

Housing starts: trends in structure and tenure type are changing ----- 3

Higher house prices bite into savings from lower mortgage rates ----- 4

The long, long view: the number of housing starts stabilizing? ----- 4

A sellers' market nationwide? MLS sales outgrowing new listings - 5

Tables ----- 6



HOME TO CANADIANS
Canada

Housing starts - Continued from page 1

In January, seasonally adjusted annual rates of urban starts were up in all regions except the Atlantic, which sustained a decrease of 29 per cent to 6,600 units.

Ontario posted the greatest increase in its annual rate of urban starts (35.1 per cent to 94,300 units), thanks in part to rental and condominium apartments.

Seasonally adjusted annual rates of starts were also up in British Columbia (29.1 per cent to 19,100 units, Quebec (10.8 per cent to 32,700 units) and the Prairies (5.9 per cent to 32,400 units).

In the large metropolitan areas, seasonally adjusted rates of starts reached 53,000 units in Toronto, 18,500 units in Montréal and 13,200 units in Vancouver.■

Contributors: Philippe Le Goff, Gary MacDonald, and Michel Laurence.

Questions:

Michel Laurence at 1-613-748-2737 or mlaurenc@cmhc-schl.gc.ca

To subscribe: 1-613-748-2006 or <http://www.cmhc-schl.gc.ca/mktinfo/store>

© **Canada Mortgage and Housing Corporation, 2002.** All rights reserved. Canada Mortgage and Housing Corporation hereby grants permission to the subscriber to produce one electronic copy and to print one hard copy for the subscriber's personal use only. No part of this publication may be reproduced, modified, or redistributed in any form or by any means, for any purposes (including but not limited to sales) other than those noted above, without the prior written permission of Canada Mortgage and Housing Corporation.

Looking back on 2001: housing starts robust despite economic slowdown

The stronger than expected growth in housing starts and resales was primarily due to the major easing of interest rates in Canada.

- In 2001, 162,733 housing units were started in Canada, for an increase of 7.3 per cent over the level of 151,653 units recorded in 2000.
- Single-detached starts rose 4.2 per cent to 96,026 units and multiple starts rose 12.2 per cent to 66,707 units. All of the increase was in urban areas. Urban starts rose by 8.6 per cent, while rural starts fell by 0.7 per cent.
- The continuing decline in mortgage rates helped stimulate demand. Strong job growth in the previous three years, high disposable income growth, high consumer confidence, and high immigration levels were also contributing factors.
- Housing starts strengthened in all provinces in 2001, with the exception of Prince Edward Island, Nova Scotia, and Saskatchewan. The end of large megaprojects slowed economic activity and housing demand in the two Atlantic provinces. Job losses and high out-migration dampened demand in Saskatchewan.■

2001 Housing Starts

Provinces	Urban Centres 10,000+	Rural Areas
Nfld. & Labrador	1,180	608
P.E.I.	375	300
N.S.	2,767	1,325
N.B.	2,200	1,262
Québec	21,941	5,741
Ontario	70,262	3,020
Manitoba	1,633	1,330
Saskatchewan	1,776	605
Alberta	24,457	4,717
B.C.	15,689	1,545
Canada	142,280	20,453

Source: CMHC Housing Facts

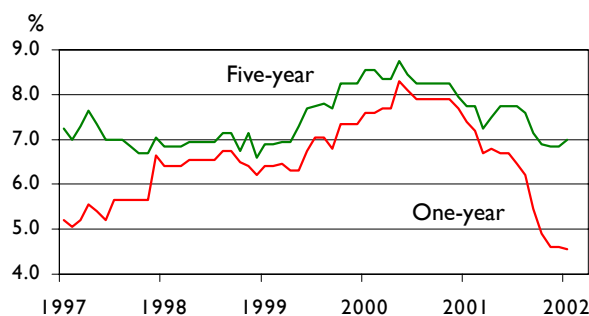
Mortgage rates will remain low this year but rise next year

The one-year mortgage rate at 4.55% is now at its lowest level ever recorded while the five-year rate at 6.85% is the lowest since 1998.

- As many financial market observers expect the prime rate, money market, and short-term bond yields to remain within relatively low ranges in 2002, short-term mortgage rates will likely follow a similar pattern. However, short-term rates will likely rise going into 2003 as the Bank of Canada and the U.S. Federal Reserve raise their respective benchmark interest rates to offset a strengthening economy.
- Financial market expectations of higher short-term rates in the next several years have already been translated into higher long-term bond yields. Long-term mortgage rates have followed suit.
- As a result of these financial market expectations, the outlook for posted short-term mortgage rates in 2002 remains favourable to housing with the one-year mortgage rate in the

4.00-5.00 per cent range. The five-year posted mortgage rate will remain in the 7.00-8.00 per cent range.■

Mortgage rates



Sources: CMHC Housing Facts, Bank of Canada

Housing starts: changes in structure and tenure type

A variety of factors, such as lower mortgage rates, higher disposable income, high immigration, and lower rental vacancy rates, have modified the mix of housing built in 2001.

- A breakdown of urban housing starts enumerated in 2000 and 2001, by structure type and by intended tenure type, indicates a number of changes in housing demand:
 1. The large drop in mortgage rates, combined with increases in disposable income, generated greater mortgage financing leverage. In fact, households saw an increase in their capacity to borrow, and some opted for more expensive products. The more well-off, for example, bought new single-detached houses rather than row houses.
 2. The lower mortgage rates also narrowed the gap between rents and monthly mortgage payments for condominium apartments. As a result, many renters were able to become condominium owners.
 3. Finally, the high level of immigration combined with the low rental housing vacancy rate stimulated rental apartment starts.■

Housing Starts, Urban Centres

Dwelling type	2000	2001	%
Detached	74,365	78,228	5.2
Semi	10,765	11,051	2.7
Row	14,799	14,356	-3.0
Apartment	31,123	38,645	24.2
-Rental	9,075	13,311	46.7
-Condo	21,434	24,466	14.1
-Other	614	868	41.4
Total	131,052	142,280	8.6

Source: CMHC Housing Facts

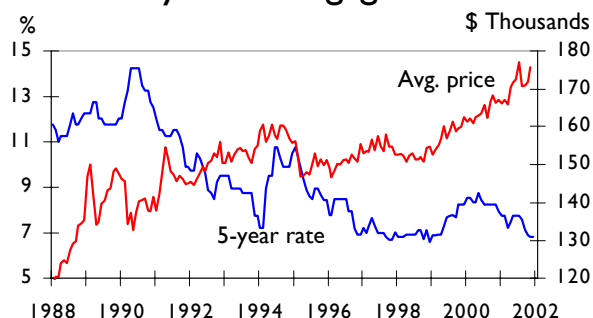
Higher house prices bite into savings from lower mortgage rates

Although many homebuyers in 2001 anticipated savings on their monthly mortgage carrying costs as a result of lower mortgage rates, higher house prices negated part of those savings.

- The mortgage rate for a five-year term averaged 7.40 per cent in 2001, down from an average of 8.35 per cent in 2000. If the national average of home resale prices had remained stable between 2000 and 2001, the drop in rates would have generated a decrease of \$98 in monthly mortgage payments, given a loan-to-value ratio of 95 per cent and a 25-year amortization.
- However, the rise in the average resale price from \$164,129 in 2000 to an estimated \$171,968 in 2001 reduced the savings that could have resulted from the reduction in mortgage rates. In fact, based on the assumptions presented above, the savings would be just \$44 instead of \$98 per month.
- The figures above reflect national averages only. There are some interesting variations among major metropolitan areas. Vancouver and Victoria posted price declines which generated savings in monthly mortgage payments in

addition to those resulting from the mortgage rate drop. On the other hand, Ottawa and Gatineau registered price hikes which generated an increase in monthly mortgage payments greater than the savings resulting from the mortgage rate drop.■

Average resale price and 5-year mortgage rate



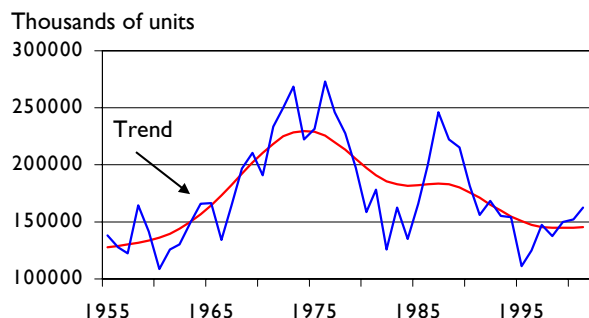
Source: CMHC Housing Facts, Canadian Real Estate Association

The long view: the number of annual housing starts stabilizing?

A scan of CMHC annual housing starts data over the last 56 years suggests a trend toward stability over the last few years, following decades of high volatility.

- Annual housing starts over the last few years have not been very volatile, at least not compared to previous decades. There were large deviations from the trend in the 1970s, 1980s, and even in the early 1990s, but there have been only small deviations since 1997.
- This recent trend toward greater stability in annual housing start activity may reflect three basic factors:
 1. The population is expanding less rapidly now than over the last several decades and baby boomers have a much less dominant effect in terms of demand for new homes. As a result, there are fewer opportunities to build up or release significant pent-up demand.
 2. The economy is managed more aggressively now than in previous decades. Monetary policy is extremely vigilant on inflation but also very pro-active to stave off major recessions.
 3. The residential building industry is also playing its part by matching the supply of new housing units close to demand conditions and controlling its inventories of newly completed and unoccupied units.■

Annual housing starts in Canada

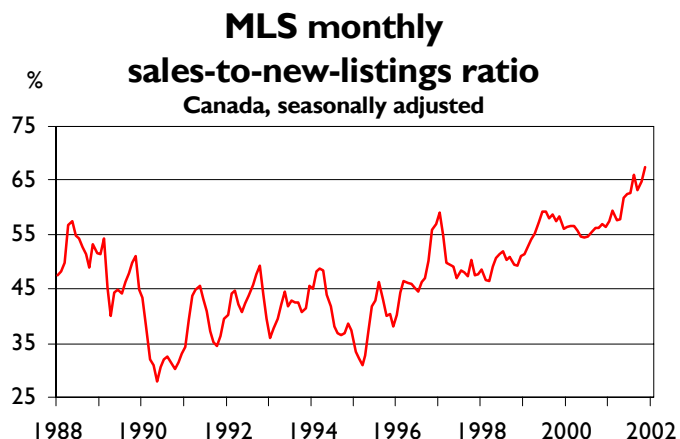


Source: CMHC Housing Facts

A sellers' market nationwide? MLS sales outgrowing new listings

2001 came to a close with the ratio of monthly MLS sales to new listings (seasonally adjusted) at a record high. This index of supply of resale homes is pointing to tight markets where well-priced homes sell rapidly and buyers may have to make compromises.

- Resale housing markets are tight in many communities across Canada. Buyers face a limited supply of homes listed for sale in established communities.
- The ratio of sales to new listings rose above 60 per cent (seasonally adjusted) for the first time in May 2001 and has continued to rise. A ratio of more than 50 per cent at the national level suggests a sellers' market.



Source: CMHC Housing Facts, Canadian Real Estate Association

MLS sales-to-new-listings ratio

Seasonally adjusted

Average of last six months of the year

	1999	2000	2001
Calgary	67.6%	59.9%	73.6%
Chicoutimi	32.0%	40.0%	43.7%
Edmonton	69.9%	67.0%	87.3%
Halifax	70.1%	62.7%	70.9%
Hamilton	67.1%	51.2%	71.2%
Kitchener	73.7%	70.3%	70.0%
London	51.7%	46.9%	58.1%
Montréal	51.0%	56.5%	73.3%
Ottawa	69.3%	80.8%	70.3%
Gatineau	45.8%	57.5%	69.0%
Quebec	46.3%	53.5%	70.9%
Regina	75.5%	60.5%	71.1%
Saint John	50.0%	49.3%	55.1%
Saskatoon	63.7%	54.6%	65.0%
St. John's	46.3%	49.2%	53.8%
Sudbury	37.2%	41.5%	46.6%
Thunder Bay	51.2%	54.2%	53.7%
Toronto	71.1%	63.6%	67.0%
Trois-Rivières	41.6%	41.0%	52.2%
Vancouver	55.1%	53.0%	73.7%
Victoria	55.4%	57.1%	76.3%
Windsor	63.6%	58.9%	57.9%
Winnipeg	67.5%	63.6%	74.0%

- The table on the left compares average ratios for various cities across Canada for the last three years, and shows how widespread the increase has been.
- The average for all these cities from 1988 to 2001 is 47.8 per cent, 57.5 per cent in 1999, and 65.4 per cent in 2001.
- To a large extent, the high sales to new listings ratios explain the substantial price gains in several of these cities across the country. The high ratios also help to explain increased housing starts activity in many urban areas as demand which could not be met in the resale market was in fact met in the new home market.
- In 2002, the sales to new listings ratios are expected to fall back in most cities. The weaker job market will cool demand for existing homes. This, in turn, will moderate price increases and limit spillover of demand from the resale to the new home market. The national average ratio of sales to new listings is expected to fall back closer to the 50 per cent mark, indicating a more balanced market between sellers and buyers.■

Source: CMHC Housing Facts; Canadian Real Estate Association.

This Month's Housing Data (SAAR)

	2001	Q2:01	Q3:01	Q4:01	M11:01	M12:01	M01:02
Housing starts, units, 000's							
Canada. Total. All areas	162.7	164.5	156.3	171.6	167.6	174.1	205.1
% chg	7.3	2.2	-5.0	9.8	-3.0	3.9	17.8
Canada. Total. Rural areas	20.5	21.2	18.8	20.1	20.1	20.1	20.0
% chg	-0.7	-0.5	-11.3	6.9	0.0	0.0	-0.5
Canada. Total. Urban areas	142.3	143.3	137.5	151.5	147.5	154.0	185.1
% chg	8.6	2.7	-4.0	10.2	-3.4	4.4	20.2
Canada. Single. Urban areas	78.2	74.0	77.8	85.0	84.0	85.7	89.3
% chg	5.2	-5.6	5.1	9.3	-1.6	2.0	4.2
Canada. Multiple. Urban areas	64.0	69.3	59.7	66.5	63.5	68.3	95.8
% chg	13.0	13.2	-13.9	11.4	-5.6	7.6	40.3
Newfoundland. Total. All areas	1.8	1.8	2.0	2.1	2.2	2.4	1.9
% chg	22.5	200.0	11.1	5.0	22.2	9.1	-20.8
Prince Edward Island. Total. All areas	0.7	0.4	0.8	1.1	1.2	0.9	0.5
% chg	-4.9	-20.0	100.0	37.5	20.0	-25.0	-44.4
Nova Scotia. Total. All areas	4.1	3.7	4.1	4.5	4.2	5.5	5.7
% chg	-7.7	-9.8	10.8	9.8	16.7	31.0	3.6
New Brunswick. Total. All areas	3.5	3.3	3.4	4.5	2.8	4.0	1.9
% chg	12.4	-10.8	3.0	32.4	-57.6	42.9	-52.5
Quebec. Total. All areas	27.7	26.7	25.7	31.0	28.6	35.5	38.2
% chg	12.1	-6.0	-3.7	20.6	-1.7	24.1	7.6
Ontario. Total. All areas	73.3	75.4	70.5	72.7	73.1	72.9	97.4
% chg	2.5	-1.0	-6.5	3.1	1.4	-0.3	33.6
Manitoba. Total. All areas	3.0	3.4	2.9	2.8	2.9	2.7	2.8
% chg	15.7	30.8	-14.7	-3.4	3.6	-6.9	3.7
Saskatchewan. Total. All areas	2.4	1.8	2.6	3.0	2.4	2.4	2.8
% chg	-5.3	-18.2	44.4	15.4	-42.9	0.0	16.7
Alberta. Total. All areas	29.2	29.6	27.9	32.2	32.1	31.7	33.1
% chg	11.1	12.5	-5.7	15.4	-1.8	-1.2	4.4
British Columbia. Total. All areas	17.2	18.4	16.4	17.7	18.1	16.1	20.9
% chg	19.5	12.9	-10.9	7.9	-4.2	-11.0	29.8

SOURCE: CMHC

All data are seasonally adjusted at an annual rate, latest month's figures are preliminary.

% chg: Per cent change from previous period.

Annual rate of housing starts, urban areas*

	2001	Q2:01	Q3:01	Q4:01	M11:01	M12:01	M01:02
Canada	142.3	143.3	137.5	151.5	147.5	154.0	185.1
Newfoundland	1.2	1.1	1.3	1.5	1.6	1.8	1.3
Prince Edward Island	0.4	0.2	0.5	0.5	0.6	0.3	0.2
Nova Scotia	2.8	2.6	2.6	3.2	2.9	4.2	4.0
New Brunswick	2.2	1.7	2.3	3.5	1.8	3.0	1.1
Québec	21.9	20.9	21.1	25.0	22.6	29.5	32.7
Ontario	70.3	72.8	67.3	69.6	70.0	69.8	94.3
Manitoba	1.6	1.7	1.8	1.5	1.6	1.4	1.5
Saskatchewan	1.8	1.4	1.9	2.4	1.8	1.8	2.1
Alberta	24.5	24.2	24.0	27.9	27.8	27.4	28.8
British Columbia	15.7	16.7	14.7	16.4	16.8	14.8	19.1

* Thousands of units, seasonally adjusted.

This Month's Major Housing Indicators

	2000	Q2:01	Q3:01	Q4:01	M11:01	M12:01	M01:02
New Housing*							
New & unoccupied. singles & semis. 000's	6.3	5.8	5.7	5.3	5.6	5.3	5.2
% chg	0.2	-4.4	-2.8	-6.2	4.9	-4.7	-2.5
New & unoccupied. row & apartments. 000's	7.3	6.5	5.4	5.3	5.2	5.3	5.0
% chg	-8.3	-0.6	-17.0	-1.7	-0.3	0.5	-4.3
New house price Index. 1992 = 100	103.2	104.8	105.7	n.a.	106.8	n.a.	n.a.
% chg	2.2	0.7	0.8	n.a.	0.1	n.a.	n.a.
Existing Housing*							
MLS resales. units. 000's**	333.7	371.0	379.4	420.7	422.7	447.3	n.a.
% chg	-0.6	5.8	2.3	10.9	7.8	5.8	n.a.
MLS average resale price. \$C. 000's	164.1	170.0	173.4	177.1	175.9	183.9	n.a.
% chg	3.8	2.5	2.0	2.1	2.6	4.6	n.a.
Mortgage market							
1-year mortgage rate.%	7.85	6.73	6.03	4.70	4.60	4.60	4.55
5-year mortgage rate. %	8.35	7.67	7.50	6.87	6.85	6.85	7.00

SOURCES: CMHC, Statistics Canada, Bank of Canada, The Canadian Real Estate Association.

chg % change from previous period.

n.a. Figures not available

* Seasonally adjusted. ** Seasonally adjusted at annual rate (SAAR).